



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
DEPARTMENT OF CONSERVATION
YEAR ENDED JUNE 30, 1979**

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

803

FINANCIAL AUDIT REPORT
DEPARTMENT OF CONSERVATION
YEAR ENDED JUNE 30, 1979

MAY 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

May 23, 1980

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the
Auditor General's financial audit report of the Department of
Conservation, year ended June 30, 1979.

The auditors are Curt Davis, CPA, Audit Manager; Romero Zamora;
Glenn Ostapeck; and Tim Bryan.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Department of Conservation. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The objectives of the Department of Conservation are to protect, conserve, and encourage development of the State's soil, mineral, geothermal, and petroleum resources. Statutorily, the department includes the Divisions of Mines and Geology, Oil and Gas, and Resource Conservation. However, funds for the Division of Resource Conservation were allocated by the department during fiscal year 1978-79 to other programs. The division was thus effectively eliminated, though it still exists by law. The department's objectives, therefore, are accomplished through the remaining two divisions:

- The Division of Oil and Gas regulates the oil, gas, and geothermal resources operations within the State and administers state laws governing conservation of such resources;

- The Division of Mines and Geology develops information and makes judgments about the geology and seismology of California by identifying geologic and seismic hazards and their underlying causes. This information provides assistance for making prudent land use decisions.

The programs of the Department of Conservation are supported by intergovernmental revenues, assessments on oil and gas operators, the sale of publications, and appropriations from the State's General Fund.

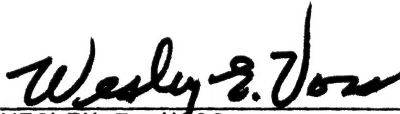
AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the general purpose financial statements of the various fund and account groups of the Department of Conservation for the year ended June 30, 1979 listed in the foregoing Table of Contents. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the general purpose financial statements listed in the aforementioned Table of Contents present fairly the financial position of the various funds and the account group of the Department of Conservation at June 30, 1979 and the results of operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The columns on the accompanying financial statements captioned "Totals - Memorandum Only" for June 30, 1979 are not necessary for a fair presentation of the financial statements but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.


WESLEY E. VOSS
Assistant Auditor General

Date: January 14, 1980

Staff: Curt Davis, CPA
Romero Zamora
Glenn Ostapeck
Tim Bryan

DEPARTMENT OF CONSERVATION
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1979

	Governmental Fund Types		Fiduciary Fund Type	Account Group	Totals (Memorandum Only)
ASSETS	General	Special Revenue	Agency	General Fixed Assets	
Cash	\$ 132,073	\$ 965,424	\$ 35,000	\$ --	\$ 1,132,497
Accounts receivable	295,680	349,248	--	--	644,928
Allowance for deferred accounts receivable	(5,919)	--	--	--	(5,919)
Prepayments to other funds	--	--	--	--	--
Due from other funds	--	15,104	--	--	15,104
Expense advances to employees	13,555	--	--	--	13,555
Equipment	--	--	--	2,460,854	2,460,854
Securities held in trust	--	--	319,000	--	319,000
Total Assets	<u>\$ 435,389</u>	<u>\$1,329,776</u>	<u>\$ 354,000</u>	<u>\$2,460,854</u>	<u>\$ 4,580,019</u>
LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 331,688	\$ 19,575	\$ --	\$ --	\$ 351,263
Due to other funds	15,104	--	--	--	15,104
Reimbursements collected in advance	84,753	--	--	--	84,753
Uncleared collections	27,000	--	--	--	27,000
Due to depositors (Note 3)	--	--	354,000	--	354,000
Total Liabilities	<u>458,545</u>	<u>19,575</u>	<u>354,000</u>	<u>--</u>	<u>832,120</u>
Encumbrances Outstanding	<u>705,887</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>705,887</u>
Fund Equity:					
Investments in general fixed assets	--	--	--	2,460,854	2,460,854
Fund balance - Undesignated	--	1,310,201	--	--	1,310,201
Operating clearing (Note 4)	(729,043)	--	--	--	(729,043)
Total Fund Equity	<u>(729,043)</u>	<u>1,310,201</u>	<u>--</u>	<u>2,460,854</u>	<u>3,042,012</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$ 435,389</u>	<u>\$1,329,776</u>	<u>\$ 354,000</u>	<u>\$2,460,854</u>	<u>\$ 4,580,019</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CONSERVATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES AND OPERATING CLEARING
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues:			
Oil and gas operators assessment	\$ 4,194,262	\$ --	\$ 4,194,262
Geothermal resources well fees	53,936	--	53,936
Sale of publications	14,833	--	14,833
Intergovernmental revenues	--	1,367,541	1,367,541
Total Revenues	<u>4,263,031</u>	<u>1,367,541</u>	<u>5,630,572</u>
Other Financing Sources:			
Reimbursements	1,842,361	9,312	1,851,673
Support appropriations (Note 5)	7,108,802	--	7,108,802
Reverted appropriations	48,982	--	48,982
Miscellaneous adjustments (Note 6)	--	--	--
Total Other Financing Sources	<u>9,000,145</u>	<u>9,312</u>	<u>9,009,457</u>
Total Revenues and Other Financing Sources	<u>13,263,176</u>	<u>1,376,853</u>	<u>14,640,029</u>
Expenditures:			
Personal services	6,263,882	346,606	6,610,488
Operating expenses	2,582,929	219,960	2,802,889
Equipment	475,887	310,408	786,295
Miscellaneous adjustments (Note 6)	183,290	--	183,290
Total Expenditures	<u>9,505,988</u>	<u>876,974</u>	<u>10,382,962</u>
Excess of Sources over (Under) Expenditures	3,757,188	499,879	4,257,067
Other Financing Uses:			
Transfer of accountability to the State Controller	(4,304,714)	--	(4,304,714)
Excess of Sources over (under) Expenditures and Other Uses	(547,526)	499,879	(47,647)
Fund Balance - July 1	--	810,322	810,322
Operating Clearing - July 1	<u>(181,517)</u>	<u>--</u>	<u>(181,517)</u>
Fund Balance - June 30	\$ --	\$ 1,310,201	\$ 1,310,201
Operating Clearing - June 30	<u>\$ (729,043)</u>	<u>\$ --</u>	<u>\$ (729,043)</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CONSERVATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE AND OPERATING CLEARING - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget as Adjusted	Actual	Variance	Budget as Adjusted	Actual	Variance	Budget as Adjusted	Actual	Variance
Revenues: (Note 2)									
Oil and gas operators assessment	\$ 4,177,395	\$ 4,194,262	\$ 16,867	\$ --	\$ --	\$ --	\$ 4,177,395	\$ 4,194,262	\$ 16,867
Geothermal resources well fees	40,000	53,936	13,936	--	--	--	40,000	53,936	13,936
Sale of publications	15,500	14,833	(667)	--	--	--	15,500	14,833	(667)
Intergovernmental revenues	--	--	--	900,000	1,367,541	467,541	900,000	1,367,541	467,541
Total Revenues	4,232,895	4,263,031	30,136	900,000	1,367,541	467,541	5,132,895	5,630,572	497,677
Other Financing Sources:									
Reimbursements	2,025,109	1,842,361	(182,748)	--	9,312	9,312	2,025,109	1,851,673	(173,436)
Support appropriations (Note 5)	9,661,197	7,108,802	(2,552,395)	--	--	--	9,661,197	7,108,802	(2,552,395)
Reverted appropriations	--	48,982	48,982	--	--	--	--	48,982	48,982
Total Other Financing Sources	11,686,306	9,000,145	(2,686,161)	--	9,312	9,312	11,686,306	9,009,457	(2,676,849)
Total Revenues and Other Financing Sources	15,919,201	13,263,176	(2,656,025)	900,000	1,376,853	476,853	16,819,201	14,640,029	(2,179,172)
Expenditures: (Note 2)									
Personal services	6,510,404	6,263,882	246,522	360,040	346,506	13,434	6,870,444	6,610,488	259,956
Operating expenses	2,660,596	2,582,929	77,667	215,766	219,960	(4,194)	2,876,362	2,802,889	73,473
Equipment	490,197	475,887	14,310	304,490	310,408	(5,918)	794,687	786,295	8,392
Miscellaneous adjustments (Note 6)	--	183,290	(183,290)	--	--	--	--	183,290	(183,290)
Total Expenditures	9,661,197	9,505,988	155,209	880,296	876,974	3,322	10,541,493	10,382,962	158,531
Excess of Sources over (under) Expenditures	6,258,004	3,757,188	(2,500,816)	19,704	499,879	480,175	6,277,708	4,257,067	(2,020,641)
Other Financing Uses:									
Transfer of accountability to the State Controller	(4,232,895)	(4,304,714)	(71,819)	--	--	--	(4,232,895)	(4,304,714)	(71,819)
Excess of Sources over (under) Expenditures and Other Uses	\$ 2,025,109	(547,526)	\$(2,572,635)	\$ 19,704	499,879	\$480,175	\$ 2,044,813	(47,647)	\$(2,092,460)
Fund Balance - July 1		--	--		810,322	810,322		810,322	810,322
Operating Clearing - July 1		(181,517)	(181,517)		--	--		(181,517)	(181,517)
Fund Balance - June 30		\$ --	\$ --		\$1,310,201	\$1,310,201		\$ 1,310,201	\$ 1,310,201
Operating Clearing - June 30		\$(792,043)	\$(792,043)		\$ --	\$ --		\$(729,043)	\$(729,043)

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CONSERVATION
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Balance July 1, 1978</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1979</u>
<u>ASSETS</u>				
Cash	\$ 65,000	\$ --	\$ 30,000	\$ 35,000
Securities held in trust	<u>410,000</u>	<u>77,000</u>	<u>168,000</u>	<u>319,000</u>
Total Assets	<u>\$475,000</u>	<u>\$77,000</u>	<u>\$198,000</u>	<u>\$354,000</u>
<u>LIABILITIES</u>				
Due to depositors (Note 3)	<u>\$475,000</u>	<u>\$77,000</u>	<u>\$198,000</u>	<u>\$354,000</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CONSERVATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the Department of Conservation. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into Governmental Fund Types, a Fiduciary Fund Type, and an Account Group. The Department of Conservation accounts for only its portion of the two fund type categories. The State Controller maintains the central accounts for all state funds and annually publishes fund statements.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in Proprietary Funds--are accounted for through governmental funds. The General Fund and the Special Revenue Fund are the Governmental Fund Types in the Department of Conservation.

General Fund

This fund includes all financial resources not accounted for in another fund.

Special Revenue Fund

The Special Revenue Fund is the Strong-Motion Instrumentation Special Fund. This fund accounts for specific revenues and operating expenditures earmarked for the installation and maintenance of strong motion instruments which are placed in various structures and under the earth's surface to prevent damage due to earthquakes.

Strong-Motion Instrumentation Special Fund - This fund is used to account for fees collected from all California local governments except those that have their own strong-motion programs. These fees, which finance the installation of strong-motion instruments, are paid by building permit applicants at the time of permit issuance and are based on the building permit valuation. Maintenance on the instruments and collection and publication of the data obtained from the instruments are also financed from the fees collected.

The Governmental Fund Types are maintained on the modified accrual basis of accounting. These are some of the more significant elements:

Income

Throughout the fiscal year all income, except for certain reimbursements which are recorded when billed, is accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected income.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued as expenditures including encumbrances outstanding against budget appropriations for which no goods or services have been received.

Liabilities

Retirement Plan - Regular employees of the department are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the department and the employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The department's share of contributions for the fiscal year was \$826,407.

Vacation and Sick Leave - Costs of vacation and sick leave are charged when these benefits are used rather than when they are earned.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by a governmental unit in a trustee capacity. The Fiduciary Fund Type for the Department of Conservation is the Special Deposit Fund. The Special Deposit Fund for the Department of Conservation is used to account for monies, passbooks, and certificates of deposit which the department holds from oil and gas well operators who are required to make deposits in accordance with state laws and regulations.

ACCOUNT GROUP

The Account Group is used to account for General Fixed Assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance. General Fixed Assets increased by a net of \$392,095 during the fiscal year.

2. BUDGET REVENUES AND EXPENDITURES

The amounts shown under "Budget as Adjusted" for revenues and detailed expenditure accounts reflect the Governor's Budget after allowing for adjustments by the Budget Act, interim statutory changes affecting appropriations, and authorized executive budget revisions issued during the year.

3. DUE TO DEPOSITORS

This account represents the amount of monies, passbooks, and certificates of deposit which the department holds from oil and gas well operators who are required to make deposits in accordance with state laws and regulations.

4. OPERATING CLEARING

This account is the connecting link between the books of the various state agencies and the central fund accounts of the State Controller's Office for the General Fund and other funds not accounted for entirely by one agency.

5. SUPPORT APPROPRIATION

Support appropriation is the portion of the General Fund which the legislative Budget Act allocated to the Department of Conservation.

6. MISCELLANEOUS ADJUSTMENT

This account shows the difference between the net amount of revenues, expenditures, abatements, and reimbursements accrued as of the previous June 30 and the actual amount of revenues, expenditures, abatements, and reimbursements obtained during the current fiscal year that relates to the prior year.

OTHER INFORMATION

As an integral part of our examination, we reviewed the department's accounting procedures and its related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the department's financial statements present its financial position and the results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the department in conjunction with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The department generally concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps